Both red and green? Value impact of political connections and CSR in China’s cross-border M&A

Xianmin Liu, Gulnur Muradoglu, Ni Peng

1. Motivations and Research Questions

- Corporate social responsibility (CSR), mainly driven by the government in China, is part of the efforts to achieve the “dual carbon” goals.
- There is still a limited understanding of the agency problems of CSR in China, particularly its integration with corporate political activities (CPA) in the context of cross-border mergers and acquisitions (CBMA).
- What is the net impact of CSR on excess stock returns of China’s CBMA?
- How do political connections matter to CSR performance and affect excess stock returns of China’s CBMA?
- What is the moderating effect of political connections on the relationship between CSR and excess stock returns?

2. Literature and Hypotheses Development

Two competing theories on the relation between CSR and M&As (Deng et al., 2013)
- Stakeholder value maximization theory argues that CSR engagements with other stakeholders could exert positive impacts on shareholder wealth.
- Shareholder expense theory regards the CSR investments in other stakeholders as the expense of shareholders.

Ascribed vs Achieved Political Links

- Ascribed political links: whether the CEO and/or Chair had only working experience in the government, the military, or the court and procuratorate before serving as the CEO and/or Chair.
- Achieved political links: whether the CEO and/or Chair are/is only serving as a delegate to the PC or/and the CPPCC after serving as the CEO and/or Chair but before the announcement year.

3. Data and Methodology

- A final sample of 591 CBMA attempts initiated by 385 Chinese A shares, of which 249 deals announced by 130 bidders with Rankins (RKS) CSR rating scores in year t-1.
- The targets span 56 economies.
- Measure of the announcement wealth effect of CBMA
  - We employ a 3-day event window (-1, 1) around the announcement day (day 0), using daily returns over an estimation period from 210 days to 11 days before day 0.
  - At least 100 trading days over the estimation window are required for a bidder in the sample (Fee and Thomas, 2004).
  - A 5-day event window (-2, 2) is also computed as robustness tests.
- Bidders’ CSR rank score: sample percentile rank scores of the overall CSR rating scores for each bidder in year t-1, in spirit of Refinitiv (2020).

4. Empirical Results

- Higher CSR bidders have lower announcement stock returns
- Higher CSR bidders have higher announcement stock returns

5. Conclusions

- Chinese bidders with high CSR performance prior to the announcement are more likely to gain low announcement stock returns, which is consistent with the shareholder expense theory of CSR.
- Chinese bidder’s CSR is at the costs of shareholder value mainly because these CSR investments are driven by CEO’s or Chair’s achieved political links.
- CEO’s or Chair’s achieved political links as a whole, or CEO’s ascribed political links as an individual, can offset the negative impact of CSR on excess stock returns.

Implications

- Politically-driven CSR investments do not necessarily help Chinese bidders to achieve high announcement stock returns.
- Different types of political links (e.g., ascribed vs achieved) are conducive to better understand the effects of political links on CSR and CBMA in China.
- Both the Party/government and companies could be strategic to engage in CSR activities and political links in CBMA.

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7. References


Corresponding author: Xianmin Liu

xianmin.liu@qmul.ac.uk